Shaping Africa's
future.

Tanzania

2008 - ANNUAL REPORT

BOA BANK TANZANIA

GROUPE BANK OF AFRICA

BOA BANK - TANZANIA

The BANK OF AFRICA Group believes in and contributes to Africa's future.

The Banks in the BOA Group contribute to children's education through their tailored services.

They see to the needs of the younger generation by offering products specifically designed to accompany their early steps in life.

New products are continuously being created to accompany Africa's young people in their projects.

Every year for over 25 years the Group has hired and trained young graduates, some of whom now occupy positions of the highest responsibility in its Banks.

For the past 12 years, the BANK OF AFRICA Foundation has promoted initiatives in schools that aim in particular to improve the living conditions of the most disadvantaged children.

Table of contents

Group Banks and Subsidiaries in 2008

11 COMMERCIAL BANKS

BOA-BENIN	9 ◆	Cotonou	8 ▲	Azové, Abomey-Calavi, Bohicon, Dassa-Zoumé, Djougou, Parakou, Porto-Novo, Ouando (Porto-Novo).
BOA-BURKINA FASO	7 ◆	Ouagadougou	5 ▲	Bobo-Dioulasso, Fada, Koudougou, Koupéla, Pouytenga.
BOA-CÔTE D'IVOIRE	9 ◆	Abidjan	2 ▲	Bouaké, San Pedro.
BOA-KENYA	4 ◆	Nairobi	3 ▲	Kisumu, Mombasa, Thika.
BOA-MADAGASCAR	14 ◆	Antananarivo	41 ▲	Spread over the whole country
BOA-MALI	7 ◆	Bamako	6 ▲ 2 ▲ 1 ●	Kayes, Koulikoro, Koutiala, Nioro du Sahel, Segou, Sikasso. Morila (Sikasso), Sadiola (Kayes). Paris.
BOA-NIGER	4 ◆	Niamey	6 ▲	Agadez, Dosso, Gaya, Maradi, Tahoua, Tillaberi.
BOA-SENEGAL	8 ◆	Dakar	3 ▲	Ngor, Saly Portudal, Touba.
BOA BANK-TANZANIA	5 ◆	Dar es Salaam	2 ▲	Arusha, Mwanza.
BOA-UGANDA	7 ◆	Kampala	5 ▲	Arua, Jinja, Lira, Mbale, Mbarara.
BCB (BANQUE DE CRÉDIT DE BUJUMBURA)	3 ◆	Bujumbura	9 ▲	Gihofi, Giteba, Kayanza, Kirundo, Muyinga, Ngozi, Rumonge, Rugombo, Ruyigi.
GIE GROUPE BANK OF AFRICA	1 ●	Paris		

1 HOUSING FINANCE BANK

BANQUE DE L'HABITAT DU BENIN	1 ◆	Cotonou

3 LEASE FINANCE COMPANIES

ÉQUIPBAIL-BENIN	●	Cotonou
ÉQUIPBAIL-MADAGASCAR	●	Antananarivo
ÉQUIPBAIL-MALI	●	Bamako

1 FIRM OF STOCKBROKERS

ACTIBOURSE	●	Cotonou	1 ●	Abidjan : Liaison office

2 INVESTMENT COMPANIES

AGORA	●	Abidjan
ATTICA	●	Cotonou

1 INFORMATION TECHNOLOGY SUBSIDIARY

AISSA	●	Cotonou

◆ Branches ▲ Regional branches ▲ Local branch ● Head office ● Representative office or liaison office

Group strong points

- Quality of customer service
- Dynamism and availability of staff
- Financial solidity
- Cohesive network
- A wide range of financing solutions
- Expertise in financial engineering
- Strong partners

A strong network

- More than 2,600 people, at your service.
- Major holding in several life insurance companies.
- More than 170 dedicated operating and production sites in 12 countries, excluding affiliated partners.
- A continuously expanding fleet of Automated Teller Machines and Electronic Payment Terminals.
- Over 600,000 bank accounts.

A wide and varied offer

- Full range of banking and financial services.
- Attractive range of life insurance policies.
- Tailored solutions for all financing issues.
- Successful financial engineering.

GROUP
TOTAL TURNOVER IN 2008

± 235 million €

Strategic partners

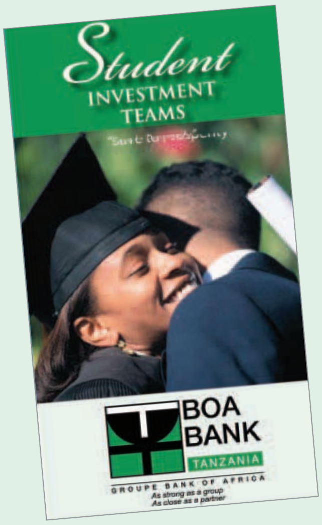
Including:

- BANQUE MAROCAINE DU COMMERCE EXTÉRIEUR (BMCE BANK),
- PROPARCO,
- INTERNATIONAL FINANCE CORPORATION (IFC - WORLD BANK GROUP),
- WEST AFRICAN DEVELOPMENT BANK (BOAD),
- NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO),
- BELGIUM INVESTMENT COMPANY FOR DEVELOPING COUNTRIES (BIO),
- and investment fund AUREOS.

Unique experience in Africa

- Continuous development for almost 30 years.

Main Products of BOA BANK - TANZANIA



Accounts	Current Account	(Local & Foreign Currency)	■
	Remunerated Current Account		■
Investment Products	Call Deposits Account		■
	Chama Account		
	Children Savings Account		
	Family Savings Account	"Dira"	■
	Ero Savings Account		
	Gold Plus Account		
	Investment Plan Account	"Prime Investment Plan"	■
	Ordinary Savings Account		■
	Premium Plus Fixed Deposit		
	Schools Fees Account		
	Senior Citizen Fixed Deposit		
	SESAME Savings Account		
	Student Investment Teams		■
	Term Deposit		■
Electronic Banking	BOA On-line		
	B-Web		■
	SESAME ATM Card	(Umoja Switch)	■
Loans & Advances	2-in-1 Loan		
	Bridging Overdraft		■
	Instant Cash		
	Personal Loans		■
	Salary Advance	"Prime Card"	■
	Schools Fees Loan		
	Super Kikapu		
BOA Company Services	BOA BANK - TANZANIA also offers a wide range of products and services to Corporates, SMEs, Organizations, Institutions, Professionals and Individuals.		■
Transfers and foreign exchanges	Foreign Exchange		■
	Moneygram		
	Travellers Cheques		■
	Western Union		■
Complementary Products & Services	Banker's Cheques		■

Annual Report

2008

A child is born.
What their life becomes will depend on them,
and their whole environment.

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Comments from the Managing Director

During 2008, Bank of Tanzania contained inflation, interest rates and the stability of the local currency. Mechanisms used included rationalizing the frequency of auctions for the sale of Government securities and amending the rules for regulatory cash reserves. The Bank of Tanzania also intervened quite heavily on the inter-bank foreign exchange market with the objective of reducing the volume of Shillings in circulation. However, deteriorating food prices and the impact of high petroleum prices derailed the achievement of some of the set targets. The year ended with an inflation rate of 12.6% compared to 6.4% in 2007. The Shilling depreciated against the United States Dollar by only 1.5% against 11.4% in the previous year.

The ramifications of the global financial meltdown began to bite at the Tanzanian economy during the last part of 2008. Sectors such as commodity trading, hotel and tourism, and mining amongst others are expected to come under intense pressure. Although BOA BANK - TANZANIA LTD's vulnerability to these sectors is relatively low, the Bank has adopted more intensive risk management measures aimed at holding value at risk to very negligible levels.

At the end of the 2008 financial year, the balance sheet size of BOA BANK - TANZANIA LTD improved by 38% with notable growth in loans and advances. The operating banking software and its supporting infrastructure were upgraded to bring them in conformity with the standards of the BANK OF AFRICA Group. Investments were also made for branch network expansion and to improve the connectivity platform. These initiatives required heavy investments and resulted in fixed assets increasing by over 240% and intangible assets by TZS 1.5 billion. To finance this, Shareholders provided additional capital of TZS 3.4 billion which was received in the last quarter of 2008.

Customer deposits increased by 44.5% over the financial year to increase our market share of industry deposits to about 1.7%. After tax profits grew by a modest 8.2% as some element of profitability had to be sacrificed for the investment in branches and improved technology.

For the first time in its history, the Bank broke out of Dar es Salaam and opened its doors to customers in Arusha and Mwanza, making a total of seven branches in the country. The response has been overwhelming as a result of which three out of the seven outlets envisaged to be opened in 2009 will be upcountry branches.

In the drive to meet increasing needs and sophistication of our customers, the year 2008 saw the introduction of new products. We started offering Western Union services, launched a real-time internet banking services known as B-Web in addition to an Equipment Financing facility that is available to contractors and other Small and Medium Enterprises. We also started sharing our ATM with the Umoja network, which is a consolidation of ATMs of six Banks.

BOA BANK - TANZANIA LTD also undertook some corporate social responsibility activities in its four targeted areas of health, education, entrepreneurial development and youth empowerment.

BOA BANK - TANZANIA LTD intends to imprint its name as one of the dominant players in the Tanzanian banking industry. 2009 will see more strides achieved in this direction. We shall continue with our branch network expansion, deploy more electronic banking channels and enhance the personalized touch that we are well known for in order to improve on customer experience and convenience. This will send a clear message to all our stakeholders that BANK OF AFRICA, through BOA BANK - TANZANIA LTD, is here to stay.

Kobby ANDAH
Managing Director

Key Facts 2008

January

- Participation in the Groupe BANK OF AFRICA's meeting 2007 for the Directors of its network in Bamako.
- Increase of TZS 280 million of Bank's capital.

March

- Launch of three products: "Equipment loan", "Prime Card" and "B-Web".

May

- Participation in the Groupe BANK OF AFRICA network management meeting, in Kampala.
- Launched Tandika Branch in Dar es Salaam, making a total of five branches in the city.

August

- Increase of TZS 360 million of Bank's capital.

October

- Opened Arusha Branch, city of northern Tanzania, and Mwanza Branch, port of lake Victoria located in northwest of the country.

November

- Increase of TZS 1,640 million of Bank's capital.

December

- Participation in the Groupe BANK OF AFRICA network Directors' meeting, in Nairobi.
- Increase of TZS 1,156 million of Bank's capital.

Key Figures 2008

Activity

Deposits *	105,532,993
Loans *	41,178,701

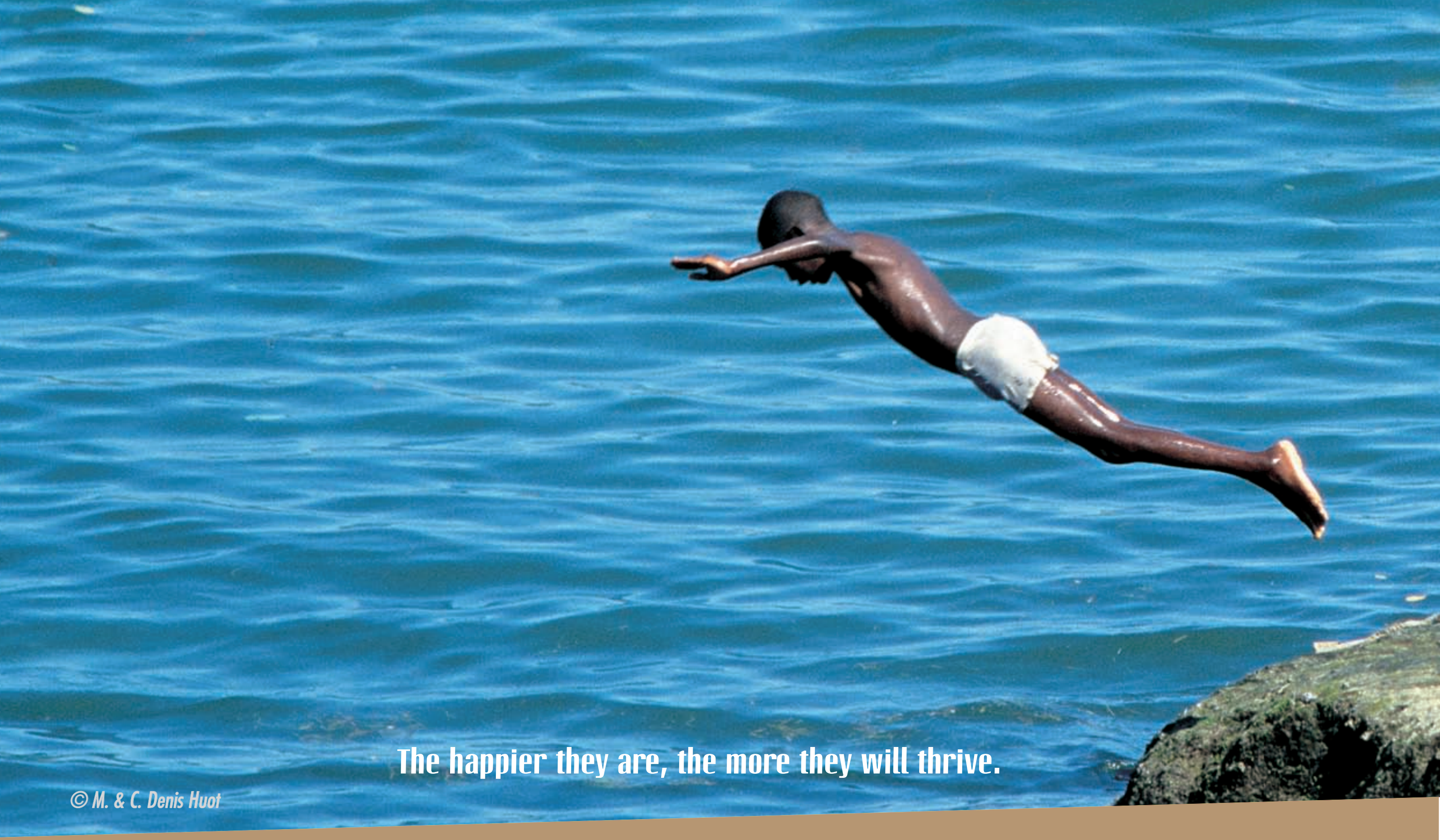
Income

Operating income *	8,302,651
Operating expenses *	6,552,562
Profit before tax *	1,545,091

Structure

Total Assets *	123,442,691
Number of employees	128

* in TZS'000
(EUR 1 = TZS 1,803.3051)



The happier they are, the more they will thrive.

© M. & C. Denis Huot

Corporate Social Responsibility Initiatives 2008

As part of our CSR, BOA BANK - TANZANIA made notable contribution in 2008 in areas of business development, education, disadvantaged group, and health to serve the community in which we operate.

Charity walk in Mwanza.
© BOA BANK - TANZANIA Ltd

SEKOU TOURE Hospital donation.

Dare2Dream Event © BOA BANK - TANZANIA Ltd

Business development – Dare to dream event.

As part of business strategy, BOA BANK TANZANIA sponsored a major women empowerment event themed: "Dare to Dream" in conjunction with BANG MAGAZINE, a popular magazine in Tanzania. BOA BANK - TANZANIA was the main sponsor. The event brought together about 200 key women entrepreneurs and aspiring business women. Apart from sponsoring the event, BOA BANK - TANZANIA made a huge impact as we imparted knowledge through presentations on various topics including; assistance of banks to small business owners, writing business proposals, ways to invest money, and challenges women business owners face in raising finance.

The presentations were well received and feedback from the audience was excellent. It was a positively interactive event where many questions were raised and addressed. The event took place on 19th February 2008, at the White Sands Hotel, Dar Es Salaam.

Education - BOA BANK TANZANIA workshop at the University of Dar es Salaam.

In the area of education, BOA BANK - TANZANIA organized a forum at the University of Dar es Salaam, targeting students of higher learning institutions. The forum was organized to impart knowledge to students about key banking services and how they can start saving early to learn financial discipline later in life. BOA BANK - TANZANIA aims to continue this gesture of tapping the student community to build base for future customers. The event took place on 5th March 2008.

Disadvantaged group – Charity walk for children in Mwanza.

Looking at the plight of children in Mwanza city, BOA BANK - TANZANIA joined hands with DEFASCO, a local NGO in Mwanza that deals with street children issues. BOA BANK - TANZANIA donated cash and items worth USD. 4,000. The donation was aimed to support the charity walk in which the Bank officials participated fully. The event took place on 2nd December 2008.

Health – Donation to Sekou Toure hospital in Mwanza.

In the Health sector BOA BANK - TANZANIA donated various items to Sekou Toure Hospital in Mwanza worth USD. 10,000. Items include; 100 mosquito nets, 20 beds, 60 bedsheets, 60 mattresses, 1 emergency bed, and 1 operating bed. The items were handed over by Managing Director of BOA BANK - TANZANIA Mr. Kobby Andah to the Mwanza Regional Commissioner and the Chief Medical Officer of Sekou Toure Hospital.

Mr. Kobby Andah stressed the importance of making our Bank a house-hold name in the community by meeting the needs and contributing to causes close to the community's heart. The events took place on the 3rd December 2008.

Board of Directors

The Directors who held office during the year and to the date of this report were:

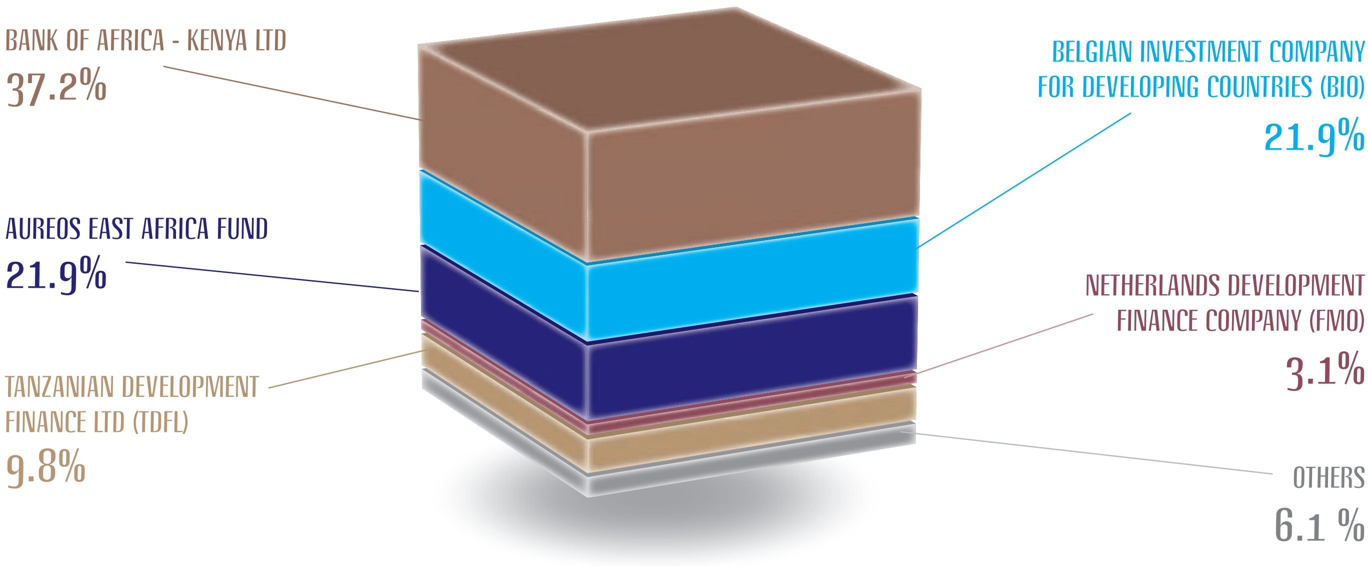
- Amb. Fulgence KAZAURA, Chairman
- Paul DERREUMAUX
- Vincent de BROUWER
- Emmanuel Ole NAIKO
- Richard CARTER
- Carole MAMAN
- Shakir MERALI
- Kobby ANDAH, Managing Director

Capital

The Bank has 105,093 authorised ordinary shares with a cumulative nominal value of TZS15 billion, of which 75,404 have been issued for total proceeds of TZS 11,562,348,768.

The following is the Bank's shareholding structure as at 31st December 2008.

Shareholding Position based on number of shares (%):



Auditors

PricewaterhouseCoopers

Directors' Report

The directors submit their report and audited financial statements for the year ended 31 December 2008, which disclose the state of affairs of BOA BANK - TANZANIA Limited (the Bank).

Principal activities and performances for the year

The Bank is engaged in taking deposits on demand, providing short-term and medium term credit facilities and other banking services.

Business developments

The following achievements were recorded in the year;

- The Bank widened its branch network by opening one more branch in Dar es Salaam and two upcountry branches in Arusha and Mwanza to a total of seven branches at the end of the year.
- The Bank further widened its Automatic Teller Machines (ATM) network to a total of 10 at the end of the year.

Financial achievements

- The Bank recorded a profit before tax of Shs 1,545 million (2007:Shs 1,439 million).
- It achieved significant growth in deposits to Shs 110 billion (2007: Shs 80 billion).
- The Bank's lending portfolio increased to Shs 41 billion (2007: Shs 24 billion).
- Total assets increased to Shs 123 billion (2007: Shs 89 billion).

Directors

The directors who held office during the year and to the date of this report are:

Name	Nationality
Fulgence KAZAURA (Chairman)	Tanzanian
Paul DERREUMAUX	French
Vincent de BROUWER	Belgian
Emmanuel OLE NAIKO	Tanzanian
Richard CARTER	British
Shakir MERALI	Kenyan
Carole MAMAN	French
Kobby ANDAH (Managing Director)	British

None of the directors holds shares in the Bank.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: Nil)

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors of the Bank for the year ending 31 December 2009 will be put to the Annual General Meeting.

By order of the Board

Fulgence KAZAURA
Chairman

23 March 2009

Report and Financial Statements

Airport Branch, in Dar es Salaam. © BOA BANK - TANZANIA Ltd

Tandika Branch, in Dar es Salaam. © BOA BANK - TANZANIA Ltd

Statement of Directors' Responsibilities

The Tanzania Companies Act 2002 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. The directors are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirements of the Tanzania Companies Act 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its profit. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement.

Fulgence KAZAURA
Chairman

23 March 2009

Mwanza Regional Branch. © BOA BANK - TANZANIA Ltd

Report of the independent auditors

to the Members of BOA BANK - TANZANIA Ltd.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of BOA BANK - TANZANIA Limited, which comprise the balance sheet as at 31 December 2008, and profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As described in the Directors' report, the Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Tanzanian Companies Act 2002. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Tanzanian Companies Act 2002.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

This report, including the opinion, has been prepared for, and only for, the Company's members as a body in accordance with the Tanzanian Companies Act 2002 and for no other purposes.

As required by the Tanzanian Companies Act 2002, we are also required to report to you if, in our opinion, the report of the directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed. There is no matter to report in respect of the foregoing requirements.

Certified Public Accountants

DAR ES SALAAM

PricewaterhouseCoopers

Signed by **Leonard C MUSURA**

23 March 2009

Financial Statements
for the year ended 31 December 2008

The more they thrive,
the better they will succeed in life.

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Financial Statements

PROFIT AND LOSS ACCOUNT

	NOTES	YEAR ENDED 31 DECEMBER 2008 SHS'000	YEAR ENDED 31 DECEMBER 2007 SHS'000
INTEREST AND SIMILAR INCOME	5	9,245,788	7,707,555
INTEREST EXPENSE AND SIMILAR CHARGES	6	(3,842,026)	(3,904,383)
NET INTEREST INCOME		**5,403,762**	**3,803,172**
FEE AND COMMISSION INCOME	7	2,079,594	1,642,024
FEE AND COMMISSION EXPENSE		(167,496)	(59,910)
NET FEE AND COMMISSION INCOME		**1,912,098**	**1,582,114**
FOREIGN EXCHANGE INCOME		972,062	767,021
OTHER INCOME		14,729	822
RECOVERY OF BAD DEBTS PREVIOUSLY WRITTEN OFF		102,424	35,626
IMPAIRMENT CHARGE ON LOANS AND ADVANCES		(307,422)	(19,585)
OPERATING EXPENSES	8	(6,552,562)	(4,730,509)
PROFIT BEFORE INCOME TAX		**1,545,091**	**1,438,661**
INCOME TAX EXPENSE	10	(504,237)	(477,011)
PROFIT FOR THE YEAR		**1,040,854**	**961,650**

BALANCE SHEET

	NOTES	AT 31 DECEMBER 2008 SHS'000	AT 31 DECEMBER 2007 SHS'000
ASSETS			
CASH AND BALANCES WITH BANK OF TANZANIA	11	19,329,656	11,238,938
LOANS AND ADVANCES TO BANKS	12	29,227,009	28,130,754
GOVERNMENT SECURITIES HELD TO MATURITY	13	27,602,269	24,146,780
LOANS AND ADVANCES TO CUSTOMERS	14	41,178,701	24,102,253
OTHER ASSETS	15	1,357,160	454,247
PREMISES AND EQUIPMENT	16	2,944,763	856,618
INTANGIBLE ASSETS	17	1,612,413	119,367
INCOME TAX RECOVERABLE		190,720	55,986
DEFERRED INCOME TAX	20	-	380,703
TOTAL ASSETS		**123,442,691**	**89,485,646**
LIABILITIES			
DEPOSITS FROM OTHER BANKS		4,392,968	7,364,486
CUSTOMER DEPOSITS	18	105,532,993	73,065,196
OTHER LIABILITIES	19	1,836,603	1,976,431
DEFERRED INCOME TAX	20	123,532	-
TOTAL LIABILITIES		**111,886,096**	**82,406,113**
EQUITY			
SHARE CAPITAL	21	11,562,349	8,726,025
SHARE PREMIUM		684,925	85,041
ACCUMULATED LOSS		(1,747,444)	(1,767,469)
REGULATORY RESERVE		1,056,765	35,936
TOTAL EQUITY		**11,556,595**	**7,079,533**
TOTAL LIABILITIES AND EQUITY		**123,442,691**	**89,485,646**

The financial statements on pages 18 to 51 were approved by the Board of Directors and signed on its behalf by:

Fulgence KAZAURA
Chairman

Kobby ANDAH
Managing Director

STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL	ADVANCE TOWARDS SHARE CAPITAL	SHARE PREMIUM	ACCUMULATED LOSS	REGULATORY RESERVE	TOTAL
	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000
YEAR ENDED 31 DECEMBER 2007						
AT START OF THE YEAR	6,478,154	2,332,912	-	(2,842,199)	149,016	6,117,883
CONVERSION OF ADVANCE SHARE CAPITAL INTO SHARE CAPITAL	2,247,871	(2,332,912)	85,041	-	-	-
PROFIT FOR THE YEAR	-	-	-	961,650	-	961,650
TOTAL RECOGNIZED INCOME FOR 2007	8,726,025	-	85,041	(1,880,549)	149,016	7,079,533
TRANSFER FROM REGULATORY RESERVE	-	-	-	113,080	(113,080)	-
BALANCE AT 31ST DECEMBER 2007	**8,726,025**	**-**	**85,041**	**(1,767,469)**	**35,936**	**7,079,533**
YEAR ENDED 31 DECEMBER 2008						
AT START OF THE YEAR	8,726,025	-	85,041	(1,767,469)	35,936	7,079,533
ISSUE OF NEW SHARES	2,836,324	-	599,884	-	-	3,436,208
PROFIT FOR THE YEAR	-	-	-	1,040,854		1,040,854
TOTAL RECOGNIZED INCOME FOR 2008	11,562,349	-	684,925	(726,615)	35,936	11,556,595
TRANSFER TO REGULATORY RESERVE	-	-	-	(1,020,829)	1,020,829	-
BALANCE AT 31ST DECEMBER 2008	**11,562,349**	**-**	**684,925**	**(1,747,444)**	**1,056,765**	**11,556,595**

Regulatory reserve represents an amount set aside to cover additional provision for loan losses required in order to comply with the requirements of Bank of Tanzania's prudential guidelines. This reserve is not available for distribution.

The Bank of Tanzania approved a provision for loan losses of Shs 1,788 million in accordance with Bank of Tanzania regulations. However, these financial statements include a provision for loan impairment losses of Shs 732 million, determined in accordance with IFRS, necessitating a transfer of Shs 1,020 million from retained earnings to regulatory reserve.

CASH FLOW STATEMENT

	NOTES	YEAR ENDED 31 DECEMBER 2008 SHS'000	YEAR ENDED 31 DECEMBER 2007 SHS'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
INTEREST AND SIMILAR INCOME RECEIVED		9,245,789	7,707,555
INTEREST PAID		(3,842,025)	(3,904,383)
NET FEES AND COMMISSION RECEIVED		2,079,594	1,642,024
OTHER INCOME RECEIVED		972,062	767,021
PAYMENT TO EMPLOYEES AND SUPPLIERS		(6,489,178)	(4,557,008)
TAX PAID		(134,736)	-
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**1,831,506**	**1,655,209**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
DECREASE/(INCREASE) IN INVESTMENT SECURITIES HELD TO MATURITY (WITH MATURITY OF 3 MONTHS AND MORE)		1,072,898	(3,214,171)
INCREASE IN LOANS AND ADVANCES TO CUSTOMERS		(17,076,448)	(6,627,410)
INCREASE IN STATUTORY MINIMUM RESERVE		(6,300,000)	(2,460,000)
INCREASE IN OTHER ASSETS		(902,912)	(260,149)
INCREASE IN DEPOSITS		29,496,280	19,272,350
(DECREASE)/INCREASE IN OTHER LIABILITIES		(139,828)	1,087,066
NET CASH INFLOW FROM OPERATING ACTIVITIES		**7,981,496**	**9,452,895**
CASH FLOWS FROM INVESTING ACTIVITIES:			
PURCHASE OF PREMISES AND EQUIPMENT	16	(2,402,099)	(511,558)
PURCHASE OF INTANGIBLE ASSETS	17	(1,614,975)	(97,322)
PROCEEDS FROM SALE OF MOTOR VEHICLE		14,729	822
NET CASH UTILISED IN INVESTING ACTIVITIES		**(4,002,345)**	**(608,058)**
CASH FLOW FROM FINANCING ACTIVITIES			
PROCEEDS FROM ISSUE OF SHARES		3,436,208	-
NET CASH INFLOW FROM FINANCING ACTIVITIES		**3,436,208**	**-**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**7,415,359**	**8,844,837**
CASH AND CASH EQUIVALENT AT START OF THE YEAR		38,670,289	29,825,452
CASH AND CASH EQUIVALENT AT END OF YEAR	23	**46,085,648**	**38,670,289**

Notes

1 GENERAL INFORMATION

The Bank is a limited liability company incorporated and domiciled in the United Republic of Tanzania. The address of its registered office is:

NDC BUILDING
OHIO AVENUE,
DAR-ES-SALAAM, TANZANIA.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

(A) BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The measurement basis applied in the preparation of these financial statements is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania shillings (Shs) and the amounts are rounded to the nearest thousand, except where otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires directors to exercise their judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

INTERPRETATIONS BY INTERNATIONAL FINANCIAL REPORTING INTERPRETATION COMMITTEE (IFRIC) EFFECTIVE IN 2008

In 2008, the following new and revised standards and interpretations became effective for the first time but have not had an impact on the Bank's financial statements:

- IFRIC 11 – IFRS 2 - Group and treasury share transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

One new standard (IFRS 8 – Operating Segments) and numerous amendments to existing standards and new interpretations have been published and will be effective for the Bank's accounting periods beginning on or after 1 January 2009, but the Bank has not early adopted any of them.

The Directors have assessed the relevance of the interpretations and amendments to existing standards with respect to the Bank's operations and concluded that they will not have a significant impact on the Bank's financial statements. The new standard (IFRS 8) does not apply to the Bank.

(B) INTEREST INCOME AND EXPENSE

Interest income and expense for all interest-bearing financial instruments except for those classified as held-for-trading or designated at fair value through profit or loss are recognised within 'interest income' and 'interest expense' in the profit and loss account using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation of the effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(C) FEE AND COMMISSION INCOME

Fees and commission are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

(D) TRANSLATION OF FOREIGN CURRENCIES

Transactions are recorded on initial recognition in Tanzania Shillings, being the currency of the primary economic environment in which the Bank operates (the functional currency). Transactions in foreign currencies during the year are converted into the Tanzania shillings using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(E) FINANCIAL ASSETS

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity financial assets; and available-for-sale financial assets. Directors determine the appropriate classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so classifying eliminates or significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and advances to customers and banks fall under this classification.

(iii) Held-to maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that directors have the positive intention and ability to hold to maturity. Were the Bank to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

(iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Loans and receivables and held-to-maturity assets are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the profit and loss account in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss account. However, interest calculated using the effective interest method is recognised in the profit and loss account.

(F) IMPAIRMENT OF FINANCIAL ASSETS

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exist for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the previously recognised impairment loss is revised by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account in impairment charge for credit losses.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(G) INCOME TAX

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the Tanzanian Income Tax Act, 2004.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(H) PROVISIONS

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(I) PREMISES AND EQUIPMENT

Premises and equipment are stated at historical cost less depreciation. Depreciation is provided on the straight line basis so as to write down the cost of assets to their residual values over their useful economic lives, at the following rates:

	%
LEASEHOLD PREMISES	20.0
MOTOR VEHICLES	20.0
FURNITURE AND FITTINGS	20.0
EQUIPMENT	20.0

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the profit and loss account.

(J) INTANGIBLE ASSETS

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

(K) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with Bank of Tanzania, Government Securities and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Bank of Tanzania.

(L) EMPLOYEE BENEFITS

The Bank and its employees contribute to the National Social Security Fund (NSSF), which is a defined contribution scheme. Employees contribute 10% while the Bank contributes 10% to the scheme. A defined contribution scheme is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The Bank's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

(M) OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(N) ACCEPTANCES AND LETTERS OF CREDIT

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(O) SHARE CAPITAL

Ordinary shares are classified as 'share capital' in equity. New shares are recorded at nominal value and any premium received over and above the par value of the shares is classified as 'share premium' in equity.

3 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risk. Taking risk is core to a financial business, and the operational risks are inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

Risk management is carried out by a risk department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important risks are credit risk, liquidity risk, market risk and other operational risk.

3.1 CREDIT RISK

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk management team of the Bank and reported to the Board of Directors and heads of department regularly.

(a) Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses.

3.1.1 Credit risk measurement

Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all the customers are segmented into five rating classes as shown below:

BANK'S INTERNAL RATINGS SCALE

BANK'S RATING	DESCRIPTION OF THE GRADE
1	CURRENT
2	ESPECIALLY MENTIONED
3	SUBSTANDARD
4	DOUBTFUL
5	LOSS

3.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified and in particular, to individual counterparties and groups, and to industries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured.

Some other specific control and mitigation measures are outlined below.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

The internal rating systems described in Note 3.1.1 focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment provision is mainly derived from each of the four internal rating grades. However, the majority of the impairment provision comes from the bottom three gradings. The table below shows the percentage of the Bank's on-balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

	2008		2007	
	LOANS & ADVANCES (%)	**IMPAIRMENT PROVISION** (%)	**LOANS & ADVANCES** (%)	**IMPAIRMENT PROVISION** (%)
CURRENT	89	-	93	-
ESPECIALLY MENTIONED	1	5	1	-
SUBSTANDARD	4	10	3	15
DOUBTFUL	4	47	-	-
LOSS	2	100	3	71
TOTAL	**100.0**	**4**	**100.0**	**2**

Also the Bank makes unidentified impairment provision for credit losses based on the probability of loss using historic default ratios.

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	2008	2007
	SHS'000	SHS'000
CREDIT RISK EXPOSURES RELATING TO ON BALANCE SHEET ASSETS		
BALANCES WITH BANK OF TANZANIA (*)	14,286,010	8,328,851
LOANS AND ADVANCES TO BANKS	29,227,009	28,130,754
GOVERNMENT SECURITIES HELD TO MATURITY	27,602,269	24,146,780
LOANS AND ADVANCES TO CUSTOMERS		
LOAN TO INDIVIDUAL:		
- OVERDRAFT	2,168,578	1,046,058
- TERM LOANS	6,545,637	5,592,717
LOAN TO CORPORATE ENTITIES:		
- CORPORATE CUSTOMERS	16,394,299	3,031,867
- SMES	16,070,187	14,431,611
CREDIT RISK EXPOSURES RELATING TO OFF BALANCE SHEET ASSETS		
FINANCIAL GUARANTEES, OUTSTANDING LETTERS OF CREDIT AND INDEMNITIES	4,279,237	2,412,369
COMMITMENTS TO EXTEND CREDIT	4,922,467	4,042,473
TOTAL	**121,495,693**	**91,163,480**

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2008 and 31 December 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

(*) Cash on hand are not included since these are not exposed to credit risk.

As shown above, of the total maximum exposure, 65% is derived from loans and advances to banks and customers (December 2007: 63%); 26% represents investments in debt securities (December 2007: 29%). Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 90% of the customer's loans and advances portfolio is categorised in the top two grades of the internal rating system (December 2007: 93%);
- 89% of the customers' loans and advances portfolio is considered to be neither past due nor impaired (December 2007: 94%);
- All the investments in debt securities and other bills are considered to be current.

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	LOAN & ADVANCES TO CUSTOMERS	LOAN & ADVANCES TO BANKS	LOAN & ADVANCES TO CUSTOMERS	LOAN & ADVANCES TO BANKS
AMOUNTS ARE IN SHS'000:		2008		2007
NEITHER PAST DUE NOR IMPAIRED	37,660,480	29,227,009	23,290,336	28,130,754
PAST DUE BUT NOT IMPAIRED	1,565,495	-	684,208	-
IMPAIRED	2,684,239	-	621,859	-
GROSS	**41,910,214**	**29,227,009**	**24,596,403**	**28,130,754**
LESS: ALLOWANCE FOR IMPAIRMENT	(731,513)	-	(494,150)	-
NET OF IMPAIRMENT	**41,178,701**	**29,227,009**	**24,102,253**	**28,130,754**

The total impairment provision for loans and advances is Shs 731 million (2007: Shs 494 million). Further information of the impairment allowance for loans and advances to customers is provided in Note 14.

During the year ended 31 December 2008, the Bank's total loans and advances increased by 71% as a result of the expansion of the lending business. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Bank focused more on the business with corporate clients or banks with good credit rating or retail customers providing sufficient collateral.

The total loans and advances that are neither impaired nor past due is Shs 37,660 million. Credit quality of the portfolio of loans and advances that were neither past due nor impaired is assessed by reference to the internal rating system.

(a) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class that were past due but not impaired were as follows (Amounts are in Shs'000).

31 DECEMBER 2008	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
PAST DUE TO 30 DAYS	15,448	160,800	52,782	264,319	493,349
PAST DUE TO 30-60 DAYS	-	81,912	-	85,697	167,609
PAST DUE 60-90 DAYS	-	484,267	-	420,270	904,537
TOTAL	**15,448**	**726,979**	**52,782**	**770,286**	**1,565,495**
FAIR VALUE OF COLLATERAL	**20,082**	**945,073**	**68,617**	**1,001,372**	**2,035,144**

The fair value of collateral is based on valuation techniques commonly used for the corresponding assets.

31 DECEMBER 2007	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
PAST DUE TO 30 DAYS	-	-	-	-	-
PAST DUE TO 30-60 DAYS	-	-	-	-	-
PAST DUE 60-90 DAYS	-	-	72,367	611,841	684,208
TOTAL	**-**	**-**	**72,367**	**611,841**	**684,208**
FAIR VALUE OF COLLATERAL	**-**	**-**	**88,288**	**734,209**	**822,497**

(b) Loans and advances individually impaired

(i) Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is Shs 2,684 million (December 2007: Shs 622 million). The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows: (Amounts are in Shs'000).

31 DECEMBER 2008	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
INDIVIDUALLY IMPAIRED LOANS	50,818	76,026	-	2,557,395	2,684,239
FAIR VALUE OF COLLATERAL	**-**	**-**	**-**	**2,657,525**	**2,657,525**

31 DECEMBER 2007	INDIVIDUALS (RETAIL CUSTOMERS)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SMES	TOTAL
INDIVIDUALLY IMPAIRED LOANS	-	56,969	-	564,890	621,859
FAIR VALUE OF COLLATERAL	**-**	**-**	**-**	**423,668**	**423,668**

(ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2008 was nil. (December 2007: nil). No collateral is held by the Bank against loans and advances to Banks.

(c) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled Shs 1,784 million at 31 December 2008 (December 2007: Shs 501 million).

	2008	2007
LOANS AND ADVANCES TO CUSTOMERS – INDIVIDUALS	TSHS'000	TSHS'000
- TERM LOANS	1,784,457	500,713
- OVERDRAFT	-	-
TOTAL	**1,784,457**	**500,713**

3.1.6 Debt securities, treasury bills and other eligible bills

The only investment securities held by the Bank are treasury bills and bonds issued by the Government of the United Republic of Tanzania.

3.1.7 Repossessed collateral

During the year, the Bank obtained assets by taking possession of collateral held as security, as follows:

NATURE OF ASSETS	**CARRYING AMOUNTS**
	TSHS'000
RESIDENTIAL PROPERTY	150,000
COMMERCIAL PROPERTY	-
MOTOR VEHICLE	6,000
TOTAL	**156,000**

Repossessed assets are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

3.1.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2008. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties (Amounts are in Shs'000).

	TANZANIA	EUROPE	AMERICA	OTHERS	TOTAL
BALANCES WITH BANK OF TANZANIA	14,286,010	-	-	-	14,286,010
LOANS AND ADVANCES TO BANKS	14,859,328	5,658,384	-	8,759,297	29,277,009
INVESTMENT SECURITIES HELD TO MATURITY	27,602,269	-	-	-	27,602,269
LOANS AND ADVANCES TO CUSTOMERS					
TO INDIVIDUALS:					
- OVERDRAFT	2,168,578	-	-	-	2,168,578
- TERM LOANS	6,545,637	-	-	-	6,545,637
TO CORPORATE ENTITIES:					
- CORPORATE CUSTOMERS	16,394,299	-	-	-	16,394,299
- SMES	16,070,187	-	-	-	16,070,187
AS AT 31 DECEMBER 2008	**97,926,308**	**5,658,384**	**-**	**8,759,297**	**112,343,989**
AS AT 31 DECEMBER 2007	**62,021,626**	**21,856,675**	**830,154**	**183**	**84,708,638**

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of its counterparties. (Amounts are in Shs'000):

	FINANCIAL INSTITUTIONS	AGRICULTURE	MANUFACTURING	BUILDING & CONSTRUCTION	GOVERNMENT	TRANSPORTATION	WHOLESALE & RETAIL TRADE	INDIVIDUALS	OTHER	TOTAL
BALANCES WITH BANK OF TANZANIA	14,286,010	-	-	-	-	-	-	-	-	14,286,010
LOANS AND ADVANCES TO BANKS	29,277,009	-	-	-	-	-	-	-	-	29,277,009
GOVERNMENT SECURITIES HELD TO MATURITY		-	-	-	27,602,269	-	-	-	-	27,602,269
LOANS AND ADVANCES TO CUSTOMERS										
TO INDIVIDUAL:										
- OVERDRAFT	-	-	-	-	-	6,501	1,352,274	721,069	88,734	2,168,578
- TERM LOANS	-	-	-	-	-	98,368	2,423,496	3,372,129	651,644	6,545,637
TO CORPORATE ENTITIES:										
- CORPORATE CUSTOMERS	2,518,370	2,452,801	3,527,934	1,769,536	-	4,661,723	412,392	-	1,051,543	16,394,299
- SMES	61,605	220,487	917,326	1.178,409	-	1,587,088	4,878,051	-	7,227,221	16,070,187
AS AT 31 DECEMBER 2008	46,142,994	2,673,288	4,445,260	2,947,945	27,602,269	6,353,680	9,066,213	4,093,198	9,019,142	112,343,989
AS AT 31 DECEMBER 2007	38,402,841	484,407	604,176	2,167,274	24,146,780	2,595,980	4,087,078	6,638,775	5,581,327	84,708,638

3.2 MARKET RISK

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates and foreign currencies, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly. Regular reports are submitted to the Board of Directors and heads of department. Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities.

3.2.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

At 31 December 2008, if the functional currency had strengthened/weakened by 10% against the US Dollar with all other variables held constant, post-tax profit for the year would have been Shs 45 million (2007: Shs 129 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated financial assets and liabilities. The exposure to foreign currencies other than the US Dollar is minimal.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2008. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (Amounts are in Shs'000).

AT 31 DECEMBER 2008	TZS	USD	EURO	GBP	ZAR	KES	UGX	TOTAL
ASSETS								
CASH AND BALANCE WITH BANK OF TANZANIA	17,696,260	1,127,709	501,524	4,163	-			19,329,656
LOANS AND ADVANCES TO BANKS	2,935,168	17,377,893	7,074,911	1,836,405	1,413	816	403	29,227,009
GOVERNMENT SECURITIES HELD TO MATURITY	27,602,269	-	-	-	-	-	-	27,602,269
LOANS AND ADVANCES TO CUSTOMERS	22,503,318	18,643,813	31,378	192	-	-	-	41,178,701
INCOME TAX RECOVERABLE	152,218	-	-	-	-	-	-	152,218
TOTAL FINANCIAL ASSETS	**70,889,233**	**37,149,415**	**7,607,813**	**1,840,760**	**1,413**	**816**	**403**	**117,489,853**

AT 31 DECEMBER 2008	TZS	USD	EURO	GBP	ZAR	KES	UGX	TOTAL
LIABILITIES								
DEPOSITS FROM OTHER BANKS	1,064	3,850,769	541,135	-	-	-	-	4,392,968
CUSTOMER DEPOSITS	62,961,668	33,688,047	6,938,755	1,944,523	-	-	-	105,532,993
OTHER LIABILITIES	1,724,421	111,008	1,174	-	-	-	-	1,836,603
TOTAL FINANCIAL LIABILITIES	**64,687,153**	**37,649,824**	**7,481,064**	**1,944,523**	**-**	**-**	**-**	**111,762,564**
NET ON BALANCE SHEET FINANCIAL POSITION	**6,202,080**	**(500,409)**	**126,749**	**(103,763)**	**1,413**	**816**	**403**	**5,727,289**
CREDIT COMMITMENTS	**2,151,524**	**2,770,943**	**-**	**-**	**-**			**4,922,467**
31 DECEMBER 2007								
TOTAL FINANCIAL ASSETS	50,573,443	32,160,385	4,671,550	269,150	183	-	-	87,674,711
TOTAL FINANCIAL LIABILITIES	47,117,350	30,361,759	4,660,837	266,167	-	-	-	82,406,113
NET ON-BALANCE SHEET FINANCIAL POSITION	**3,456,093**	**1,798,626**	**10,713**	**2,983**	**183**	**-**	**-**	**5,268,598**
CREDIT COMMITMENTS	**1,794,020**	**2,248,453**	**-**	**-**	**-**	**-**	**-**	**4,042,473**

3.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear any interest rate risk on off balance sheet items.

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON INTEREST BEARING	TOTAL
	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000
AS 31 DECEMBER 2008							
ASSETS							
CASH AND BALANCES WITH BANK OF TANZANIA	-	-	-	-	-	19,329,656	19,329,656
LOANS AND ADVANCES TO BANKS	14,474,800	7,412,824	1,280,300	-	-	6,059,085	29,227,009
GOVERNMENT SECURITIES HELD TO MATURITY	2,967,745	7,761,417	15,367,706	1,505,401	-	-	27,602,269
LOANS AND ADVANCES TO CUSTOMERS	9,907,989	4,315,169	11,659,323	14,536,490	759,730	-	41,178,701
TAX RECOVERABLE	-	-	-	-	-	152,218	152,218
TOTAL FINANCIAL ASSETS	**27,350,534**	**19,489,410**	**28,307,329**	**16,041,891**	**759,730**	**25,540,959**	**117,489,853**
LIABILITIES							
DEPOSITS FROM OTHER BANKS	542,199	3,850,769	-	-	-	-	4,392,968
CUSTOMER DEPOSITS	19,997,379	19,047,006	24,296,070	-	-	42,192,538	105,532,993
OTHER LIABILITIES	-	-	-	-	-	1,836,603	1,836,603
TOTAL FINANCIAL LIABILITIES	**20,539,578**	**22,897,775**	**24,296,070**	**-**	**-**	**44,029,141**	**111,762,564**
TOTAL INTEREST REPRICING GAP	**6,810,956**	**(3,408,365)**	**4,011,259**	**16,041,891**	**759,730**	**-**	**5,727,289**
AS 31 DECEMBER 2007							
TOTAL FINANCIAL ASSETS	26,636,803	6,754,679	30,267,273	11,064,860	58,789	13,346,554	88,128,958
TOTAL FINANCIAL LIABILITIES	21,550,618	14,975,114	10,692,498	-	-	35,187,883	82,406,113
TOTAL INTEREST REPRICING GAP	**5,086,185**	**(8,220,435)**	**19,574,775**	**11,064,860**	**58,789**	**-**	**5,722,845**

At 31 December 2008, if the interest rates on functional currency denominated assets and liabilities had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been Shs 61million (2007: Shs 155 million) lower/higher, mainly as a result of fluctuations in interest income and interest expense. At 31 December 2008, if the interest rates on US dollar denominated assets and liabilities had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been Shs 17 million (2007: Shs 16 million) lower/higher, mainly as a result of fluctuations in interest income and interest expense. The exposure to interest rates fluctuations on assets and liabilities denominated in currencies other than US dollar is minimal.

3.3 LIQUIDITY RISK

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate Treasury team, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Note 3.3.3).

The Bank also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by a separate Treasury team to maintain a wide diversification by currency, geography, provider, product and term.

3.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual discounted cash flows, as the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000	SHS '000
AS 31 DECEMBER 2008						
LIABILITIES						
DEPOSITS FROM OTHER BANKS	542,199	3,850,769	-	-	-	4,392,968
CUSTOMER DEPOSITS	62,189,917	19,047,006	24,296,070	-	-	105,532,993
INTEREST PAYMENTS	22,679	422,870	577,041	-	-	1,022,590
OTHER LIABILITIES	1,836,603	-	-	-	-	1,836,603
TOTAL LIABILITIES (contractual maturity dates)	**64,591,398**	**23,320,645**	**24,873,111**	**-**	**-**	**112,785,154**
TOTAL ASSETS (expected maturity dates)	**54,152,420**	**19,489,410**	**28,306,766**	**16,041,891**	**759,730**	**118,847,012**
AS 31 DECEMBER 2007						
LIABILITIES						
DEPOSITS FROM OTHER BANKS	7,364,486	-	-	-	-	7,364,486
CUSTOMER DEPOSITS	47,397,584	14,975,114	10,692,498	-	-	73,065,196
INTEREST PAYMENTS	29,756	228,459	482,751	-	-	740,966
OTHER LIABILITIES	1,976,431	-	-	-	-	1,976,431
TOTAL LIABILITIES (contractual maturity dates)	**56,768,257**	**15,203,573**	**11,175,249**	**-**	**-**	**83,147,079**
TOTAL ASSETS (expected maturity dates)	**39,982,793**	**6,754,680**	**30,267,836**	**11,064,860**	**58,789**	**88,128,958**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection and treasury and other eligible bills; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

3.3.4 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 23), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 24) expiring not later than 1 year are also included below.

	2008	2007
	SHS ' 000	SHS' 000
OUTSTANDING LETTERS OF CREDIT, GUARANTEES AND INDEMNITIES	4,279,237	2,412,369
COMMITMENTS TO EXTEND CREDIT	4,922,467	4,042,473
TOTAL	**9,201,704**	**6,454,842**

3.3.5 Fair values of financial assets and liabilities

The fair value of government securities held-to-maturity at 31 December 2008 is estimated at Shs 28,621 million (2007: Shs 25,455 million) compared to their carrying values of Shs 27,602 million (2007: Shs 24,147 million). The fair values of the Bank's other financial assets such as loans and advances to customers approximate the respective carrying amounts due to the generally short periods to maturity dates. Fair values are based on the last auction for Treasury bills and Bonds that was held in December 2008.

3.4 CAPITAL MANAGEMENT

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulator;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania (BoT), for supervisory purposes. The required information is filed with the BoT on a quarterly basis.

The BoT requires each bank or banking group to:

(a) hold the minimum level of Core Capital of Shs 5 billion;

(b) maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off- balance sheet assets (the 'Basel ratio') at or above the required minimum of 10%;

(c) and maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's regulatory capital as managed by its Treasury department is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Prepaid expenses and deferred charges are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2008 and year ended 31 December 2007. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

TIER 1 CAPITAL	2008	2007
	SHS'000	SHS'000
SHARE CAPITAL	11,562,349	8,726,024
ACCUMULATED LOSS	(1,747,444)	(1,767,469)
SHARE PREMIUM	684,925	85,041
PREPAID EXPENSES AND DEFERRED CHARGES	(1,463,808)	(712,557)
TOTAL QUALIFYING TIER 1 CAPITAL	**9,036,022**	**6,331,039**
TIER 2 CAPITAL	**51,855**	**-**
TOTAL REGULATORY CAPITAL	**9,087,877**	**6,331,039**
RISK-WEIGHTED ASSETS		
ON-BALANCE SHEET	43,621,658	23,737,986
OFF-BALANCE SHEET	4,569,732	1,641,235
TOTAL RISK-WEIGHTED ASSETS	**48,191,390**	**25,379,221**

	REQUIRED RATIO	**BANK'S RATIO**	**BANK'S RATIO**
	2008	2008	2007
	%	%	%
TIER 1 CAPITAL	10	19	25
TIER 1 + TIER 2 CAPITAL	12	19	25

The increase of the regulatory capital during the year 2008 is mainly due to increase in paid up capital arising from the issue of new shares and contribution of the current year profit.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(A) IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows in an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(B) HELD TO MATURITY INVESTMENTS

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

(C) PREMISES AND EQUIPMENT

Critical estimates are made by the directors in determining depreciation rates for premises and equipment and their residual values. The rates are set out in note 3(i) above.

5 INTEREST AND SIMILAR INCOME

	2008	2007
	SHS'000	SHS'000
LOAN AND ADVANCES	5,412,615	3,253,059
INVESTMENT SECURITIES HELD TO MATURITY	2,983,837	3,264,900
PLACEMENTS	849,336	1,189,596
TOTAL	**9,245,788**	**7,707,555**

6 INTEREST EXPENSE AND SIMILAR CHARGES

	2008	2007
	SHS'000	SHS'000
TIME DEPOSITS	3,633,676	2,982,488
SAVINGS DEPOSITS	78,376	67,515
OTHERS	129,974	854,380
TOTAL	**3,842,026**	**3,904,383**

7 FEES, COMMISSION AND OTHER INCOME

	2008	2007
	SHS'000	SHS'000
COMMISSION AND FEES FROM BANKING OPERATIONS	900,233	662,188
COMMISSION ON TELEGRAPHIC TRANSFERS AND INTERNATIONAL TRADE FINANCE ACTIVITIES	450,156	323,579
FACILITY FEES FROM LOANS AND ADVANCES	294,320	183,268
COMMISSION ON LETTERS OF CREDIT AND GUARANTEES	149,276	131,216
OTHER INCOME	285,609	341,773
TOTAL	**2,079,594**	**1,642,024**

8 OPERATING EXPENSES

	2008	2007
	SHS'000	SHS'000
EMPLOYEE BENEFITS (NOTE 9)	2,615,977	1,878,804
OCCUPANCY EXPENSES	699,538	483,315
REPAIRS AND MAINTENANCE	213,505	312,697
ADVERTISING AND BUSINESS PROMOTION	327,964	381,201
LEGAL AND PROFESSIONAL FEES	158,573	100,858
TRAVELLING EXPENSES	166,253	133,000
DEPRECIATION (NOTE 16 AND 17)	418,643	213,977
DIRECTORS' EMOLUMENTS		
- FEES	35,088	17,841
- OTHERS	351,558	333,929
AUDITORS' REMUNERATION	36,503	23,833
SWIFT AND CORRESPONDENT BANK CHARGES	167,496	59,910
OTHERS	1,361,464	791,144
TOTAL	**6,552,562**	**4,730,509**

9 EMPLOYEE BENEFITS

	2008	2007
	SHS'000	SHS'000
EMPLOYEE BENEFITS COMPRISE THE FOLLOWING:		
WAGES AND SALARIES	1,946,272	1,196,251
SOCIAL SECURITY COSTS (NSSF CONTRIBUTIONS)	187,425	124,532
OTHER EMPLOYMENT COSTS AND BENEFITS	482,280	558,021
TOTAL	**2,615,977**	**1,878,804**

10 INCOME TAX EXPENSE

	2008	2007
	SHS'000	SHS'000
THE TAX CHARGE FOR THE YEAR IS ARRIVED AT AS FOLLOWS:		
- CURRENT TAX – CURRENT PERIOD	-	-
- CURRENT TAX – PRIOR PERIOD	2	(562)
- DEFERRED INCOME TAX CHARGE – CURRENT YEAR	508,289	455,880
- DEFERRED INCOME TAX CHARGE – PRIOR YEARS	(4,054)	21,693
TOTAL	**504,237**	**477,011**

The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2008	2007
	SHS'000	SHS'000
PROFIT INCOME BEFORE TAX	1,545,091	1,438,661
TAX CALCULATED AT A TAX RATE OF 30%	463,527	431,598
TAX EFFECT OF:		
- ADJUSTMENT ON FIXED ASSETS	-	(875)
- EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	44,763	25,157
- (OVER)/UNDER PROVISION OF TAX IN PRIOR YEARS	(4,053)	21,131
TOTAL	**504,237**	**477,011**

11 CASH AND BALANCES WITH BANK OF TANZANIA

	2008	2007
	SHS'000	SHS'000
CASH ON HAND	5,043,646	2,910,087
BALANCES WITH THE BANK'S OF TANZANIA:		
STATUTORY MINIMUM RESERVE (SMR)	13,200,000	6,900,000
CLEARING ACCOUNT	1,086,010	1,428,851
TOTAL	**19,329,656**	**11,238,938**

The SMR deposit is not available to finance the Bank's day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the cash flow statement (See Note 23). Cash in hand and balances with Bank of Tanzania are non-interest bearing.

12 LOANS AND ADVANCES TO BANKS

	2008	2007
	SHS'000	SHS'000
BALANCES WITH OTHER BANKS	6,446,826	1,597,383
ITEMS IN COURSE OF COLLECTION	1,443,745	1,897,231
PLACEMENTS WITH LOCAL BANKS	7,000,888	5,443,742
PLACEMENTS WITH FOREIGN BANKS	14,335,550	19,192,398
INCLUDED IN CASH AND CASH EQUIVALENTS (NOTE 23)	**29,227,009**	**28,130,754**

All the loans granted by the Bank bear variable interest rates linked to the changes in the Bank's base lending rate.

13 GOVERNMENT SECURITIES HELD TO MATURITY

	2008	2007
	SHS'000	SHS'000
TREASURY BILLS MATURING WITHIN 90 DAYS	10,728,983	6,200,597
TREASURY BILLS MATURING AFTER 90 DAYS	15,367,706	17,519,873
TOTAL	**26,096,689**	**23,720,470**
TREASURY BONDS MATURING WITHIN 2 YEARS	1,505,580	426,310
TOTAL GOVERNMENT SECURITIES HELD-TO-MATURITY	**27,602,269**	**24,146,780**

Treasury bills and bonds are debt securities issued by the Government of the United Republic of Tanzania at an effective rate of 13%.

14 LOANS AND ADVANCES TO CUSTOMERS

	2008	2007
	SHS'000	SHS'000
ADVANCES TO CUSTOMERS	41,121,854	24,086,123
ADVANCES TO STAFF	788,360	510,280
GROSS LOANS AND ADVANCES	41,910,214	24,596,403
LESS: CREDIT IMPAIRMENT PROVISION	(731,513)	(494,150)
NET LOANS AND ADVANCES	**41,178,701**	**24,102,253**

Movements in provision for impairment of loans and advances by class is as follows; (Amounts are in Shs'000).

	RETAIL CUSTOMERS	**CORPORATE CUSTOMERS**	
	TERM LOANS	**SMES**	**TOTAL**
BALANCE AT 1 JANUARY 2008	**56,970**	**437,180**	**494,150**
INCREASE IN PROVISION FOR INDIVIDUAL LOAN IMPAIRMENT	74,501	181,067	255,568
INCREASE IN UNIDENTIFIED IMPAIRMENT PROVISION	7,069	44,786	51,855
WRITE OFFS	(4,627)	(65,433)	(70,060)
AT 31 DECEMBER 2008	**133,913**	**597,600**	**731,513**
BALANCE AT 1 JANUARY 2007	**92,431**	**605,065**	**697,496**
INCREASE IN PROVISION FOR LOAN IMPAIRMENT	-	19,585	19,585
INCREASE IN UNIDENTIFIED IMPAIRMENT PROVISION	-	-	-
WRITE OFFS	(35,461)	(187,470)	(222,931)
AT 31 DECEMBER 2007	**56,970**	**437,180**	**494,150**

15 OTHER ASSETS

	2008	2007
	SHS'000	SHS'000
PREPAID EXPENSES	1,201,400	285,880
SUNDRY DEBTORS AND STOCKS OF STATIONERY	155,760	168,367
TOTAL	**1,357,160**	**454,247**

16 PREMISES AND EQUIPMENT

	LEASEHOLD PREMISES	MOTOR VEHICLES	EQUIPMENT	FURNITURE & FITTINGS	WORK IN PROGRESS	TOTAL
	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000
COST						
AT 1 JANUARY 2007	**555,722**	**150,604**	**677,403**	**185,010**	**-**	**1,568,739**
ADDITIONS	74,783	-	321,606	14,160	101,009	511,558
DISPOSALS	-	-	(12,126)	(21,839)	-	(33,965)
ADJUSTMENT	-	-	5,362	4,556	-	9,918
AT 31 DECEMBER 2007	**630,505**	**150,604**	**992,245**	**181,887**	**101,009**	**2,056,250**
DEPRECIATION						
AT 1 JANUARY 2007	**303,708**	**150,604**	**432,238**	**164,098**	**-**	**1,050,648**
CHARGE FOR THE YEAR	55,969	-	124,005	9,824	-	189,798
DISPOSALS	-	-	(12,126)	(21,362)	-	(33,488)
ADJUSTMENT			(7,308)	(18)	-	(7,326)
AT 31 DECEMBER 2007	**359,677**	**150,604**	**536,809**	**152,542**	**-**	**1,199,632**
NET BOOK AMOUNT:						
AT 31 DECEMBER 2007	**270,828**	**-**	**455,436**	**29,345**	**101,009**	**856,618**
COST						
AT 1 JANUARY 2008	**630,505**	**150,604**	**992,245**	**181,887**	**101,009**	**2,056,250**
ADDITIONS	1,280,601	6,750	1,074,590	40,158	-	2,402,099
DISPOSALS	-	(18,484)	-	-	-	(18,484)
TRANSFER	75,324	-	-	-	(75,324)	-
AT 31 DECEMBER 2008	**1,986,430**	**138,870**	**2,066,835**	**222,045**	**25,685**	**4,439,866**
DEPRECIATION						
AT 1 JANUARY 2008	**359,677**	**150,604**	**536,809**	**152,542**	**-**	**1,199,632**
CHARGE FOR THE YEAR	103,005	563	200,227	10,159	-	313,954
DISPOSALS	-	(18,484)			-	(18,484)
AT 31 DECEMBER 2008	**462,682**	**132,683**	**737,036**	**162,701**	**-**	**1,495,102**
NET BOOK AMOUNT:						
AT 31 DECEMBER 2008	**1,523,748**	**6,187**	**1,329,799**	**59,344**	**25,685**	**2,944,763**

In April 2008 the Bank made changes to the depreciation rates for computer hardware included in equipment from 33% to 20%.

Also during the year computer software has been reclassified from premises and equipment to intangible assets.

17 INTANGIBLE ASSETS

	COMPUTER SOFTWARE LICENCES	COMPUTER SOFTWARE LICENCES
	2008	2007
	SHS'000	SHS'000
AT START OF YEAR	**119,367**	**66,382**
ADDITIONS	1,614,975	97,322
DISPOSAL	(17,240)	-
AMORTISATION	(104,689)	(24,180)
ADJUSTMENTS	-	(20,157)
AT END OF YEAR	**1,612,413**	**119,367**
AT 31 DECEMBER		
COST	2,040,221	448,232
ACCUMULATED AMORTISATION	(427,808)	(328,865)
NET BOOK AMOUNT	**1,612,413**	**119,367**

18 CUSTOMER DEPOSITS

	2008	2007
	SHS'000	SHS'000
CUSTOMER ACCOUNTS	104,351,708	72,293,671
ACCRUED INTEREST ON DEPOSITS	1,181,285	771,525
TOTAL	**105,532,993**	**73,065,196**

All deposits from customers have variable interest rates.

19 OTHER LIABILITIES

	2008	2007
	SHS'000	SHS'000
BANK DRAFTS PAYABLE	754,122	1,355,012
ACCRUALS AND OTHER PROVISIONS	839,082	450,717
DEFERRED COMMITMENT AND FACILITY FEES	243,399	170,702
TOTAL	**1,836,603**	**1,976,431**

20 DEFERRED INCOME TAX

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The movement on the deferred tax account is as follows:

	2008	2007
	SHS'000	SHS'000
AT 1 JANUARY	**(380,703)**	**(858,276)**
INCOME STATEMENT CHARGE – CURRENT YEAR(NOTE 10)	508,289	455,880
– PRIOR YEARS	(4,054)	21,693
AT 31 DECEMBER	**123,532**	**(380,703)**

Deferred tax assets and liabilities and deferred tax charge to the income statement are attributed to the following items:

	RESTATED 1 JANUARY 2008	**CHARGED /(CREDITED) TO INCOME STATEMENT**	**31 DECEMBER 2008**
	SHS'000	SHS'000	SHS'000
DEFERRED TAX LIABILITY			
OTHER TIMING DIFFERENCES	(30,111)	160,408	130,297
DEFERRED TAX ASSET			
ACCELERATED TAX DEPRECIATION	(18,593)	183,105	164,512
TAX LOSSES CARRIED FORWARD	(331,999)	160,722	(171,277)
TOTAL	**(380,703)**	**504,235**	**123,532**

21 SHARE CAPITAL

	2008	2007
	SHS'000	SHS'000
AUTHORISED		
2,000 CLASS "A" ORDINARY SHARES OF SHS 1 MILLION EACH	2,000,000	2,000,000
4,100 CLASS "B" ORDINARY SHARES OF SHS 375,000 EACH	1,537,500	1,537,500
98,991 CLASS "C" ORDINARY SHARES OF SHS 115,792 EACH	11,462,366	6,462,467
1 CLASS "D" ORDINARY SHARE OF SHS 32,688	33	33
1 CLASS "E" ORDINARY SHARE OF SHS 101,440	101	-
TOTAL	**15,000,000**	**10,000,000**
CALLED UP AND FULLY PAID		
2,000 CLASS "A" ORDINARY SHARES OF SHS 1 MILLION EACH	2,000,000	2,000,000
4,100 CLASS "B" ORDINARY SHARES OF SHS 375,000 EACH	1,537,500	1,537,500
69,304 CLASS "C" ORDINARY SHARES OF SHS 115,792 EACH	8,024,849	5,188,524
TOTAL	**11,562,349**	**8,726,024**

During the year, the Bank increased its authorized share capital to Shs 15 billion, by increasing 43,180 class "C" Ordinary shares and 1 class "E" Ordinary share. Therefore a total 24,495 class "C" ordinary shares were issued and paid for at an average price of Shs 140,287 per share resulting into an increase in share premium by Shs 600 million. All classes of shares rank pari-pasu in voting rights and dividend payments.

22 SHARE CAPITAL

The shareholding of the Bank was as follows:

	2008	2007
	%	%
BANK OF AFRICA - KENYA	37.2	34.1
AUREOS EAST AFRICA FUND LLC	21.9	23.2
BIO - BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES	21.9	23.2
FMO - NETHERLANDS DEVELOPMENT FINANCE CORPORATION	3.1	4.1
TDFL	9.8	7.1
OTHERS	6.1	8.3
TOTAL	**100**	**100**

23 CASH AND CASH EQUIVALENTS

	2008	2007
	SHS'000	SHS'000
CASH AND BALANCES WITH BANK OF TANZANIA	19,329,656	11,238,938
LESS: CASH RESERVE REQUIREMENT	13,200,000	6,900,000
TOTAL	**6,129,656**	**4,338,938**
INVESTMENT SECURITIES HELD TO MATURITY (WITH ORIGINAL MATURITIES WITHIN 90 DAYS)	10,728,983	6,200,597
LOANS AND ADVANCES TO BANKS (NOTE 12)	29,227,009	28,130,754
TOTAL	**46,085,648**	**38,670,289**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with Central Bank, treasury bills and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Tanzania.

24 CONTINGENT LIABILITIES AND COMMITMENTS

In common with other banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

CONTINGENT LIABILITIES

	2008	2007
	SHS'000	SHS'000
OUTSTANDING LETTERS OF CREDIT (FOREIGN CURRENCY)	1,879,372	1,093,662
OUTSTANDING GUARANTEES AND INDEMNITIES:		
- FOREIGN CURRENCY	1,081,268	1,045,367
- LOCAL CURRENCY	1,318,59	273,340
TOTAL	**4,279,237**	**2,412,369**

NATURE OF CONTINGENT LIABILITIES

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers. Guarantees are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customers' default.

OTHER COMMITMENTS

	2008	2007
	SHS'000	SHS'000
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	4,922,467	4,042,473

NATURE OF COMMITMENTS

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

CAPITAL COMMITMENTS

	2008	2007
	SHS'000	SHS'000
CAPITAL EXPENDITURE THAT HAS BEEN APPROVED BY THE BOARD BUT NOT YET CONTRACTED FOR	488,000	1,268,006

25 RELATED PARTY TRANSACTIONS

The shareholders of the Bank are disclosed in note 22. The ultimate holding company of the Bank is BANK OF AFRICA GROUP.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. Related companies are those which are owned by directors and shareholders of the Bank. The volumes of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

There were no loans made to directors and key management personnel during the year.

CASH AND SHORT TERM FUNDS WITH RELATED COMPANIES

	2008	2007
	SHS'000	SHS'000
LOAN AND ADVANCES TO BANKS	5,613,094	-
DEPOSITS FROM OTHER BANKS	3,804,900	3,964
INTEREST RECEIVED	20,282	918
FOREIGN EXCHANGE INCOME	101,700	-
INTEREST EXPENSE	(9,969)	-

KEY MANAGEMENT COMPENSATION

SALARIES AND OTHER SHORT TERM EMPLOYEE BENEFITS	328,128	314,088
POST-EMPLOYMENT BENEFITS	23,430	19,841
TOTAL	**351,558**	**333,929**

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director of the Bank.

DIRECTORS' REMUNERATION

Fees and other emoluments paid to directors of the Bank during the year are as follows:

	DIRECTORS FEES	OTHER EMOLUMENTS	DIRECTORS FEES	OTHER EMOLUMENTS
NAME	SHS'000	SHS'000	SHS'000	SHS'000
AMBASSADOR F. KAZAURA	13,540	-	13,216	-
MR. E. OLE NAIKO	4,651	-	4,625	-
MR. PAUL DERREMAUX	3,621	-	-	-
MR. JUMA KISAAME	-	-	-	258,036
MR. KOBBY ANDAH	-	351,558	-	75,893
MR. VINCENT DE BROUWER	3,621	-	-	-
MR. RICHARD CARTER	6,034	-	-	-
MR. SHAKIR MERALI	3,621	-	-	-
TOTAL	**35,088**	**351,558**	**17,841**	**333,929**

Notes

Notes

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